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Finanční analýza společnosti PepsiCo

Financial Analysis of PepsiCo company

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1. Introduction
2. Description of the financial analysis methodology
3. Financial characterization of PepsiCo company
4. Financial analysis of PepsiCo company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

References:

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The declaration
“Here with I declare that I elaborated the entire thesis, including all annexes, independently.”

Ostrava dated…………………..

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Student’s name and surname

Content

1 Introduction

Financial analysis is the investigation of financial statement, it's a kind of measure for investors to invest in a company or not. In this financial thesis, analysis target is a successful globalization company-PepsiCo. Pepsi is a carbonated drink that produced and manufactured by PepsiCo. Mainly product is Pepsi cola. Country of origin is United States, is the mainly competitors with Coca-Cola. PepsiCo is also the fourth largest food and beverage and one of the most successful consumer products company in the world.

This is to analysis how a company became successful and influential by using financial approaches, such as financial ratio, balance sheet method or DuPont analysis. The reason of this thesis is to understand the profitability, solvency and financial statement of PepsiCo, through analysis it can figure out some financial reasons that can influence one company's operations of business and strategies in the future. The significant of the topic is analysis PepsiCo's basic financial data and condition, or the power of competitive with same industry, especially Coca-Cola.

People always use the financial knowledge they know, meticulous logic to analysis when writing a financial thesis. Through analysis and describe some economic or financial phenomenon in company, people can improve the ability of solving economic problems and approach through analysis, conclusion financial and economic knowledge. It's better to join in the economic area in the future.

There are five main chapters in this thesis, first part is introduction, some basic information about this thesis. Second part is methodology analysis, in this chapter, there are some financial formula and their meaning, which is important basic data and methodology in this thesis. The third chapter is some basic information, purpose and structure of PepsiCo. The fourth part is the most important part, It analysis the reason of data changing, and compare with some ratio in this part. The fifth part is conclusion, there are some result and summary in this part.

2 Description of the financial analysis methodology

Methodology is based on calculating some ratios, they are a tool for analyzing balance sheet[1]. The aim is to quantify the financial relationship between two quantities and formulate an objective opinion adequacy of this relationship.

2.1 Common size analysis

Common size analysis is a method that comparing financial statements of different-sized companies or financial statements of one company from different time periods. It required these comparisons by measuring some part of one company's financial operations against the totality of the operations. This method of analysis may be performed on income statements or balance sheets. And there are two types of common size analysis, one is **vertical common-size analysis,** the other one is **horizontal common-size analysis.**

2.1.1 Vertical common-size analysis

Comparing the amount of the account to a standard item in given period in the same year. Vertical common-size analysis allows someone to see the composition of each of the financial statements and determine if significant changes have occurred.

2.1.2 Horizontal common-size analysis

Horizontal analysis focuses on trends and changes in financial statement items over time. Along with the dollar amounts presented in the financial statements, horizontal analysis can analysis a financial statement user to see relative changes over time and identify positive or troubling trends. In one horizontal analysis approach, a base year is selected and each financial statement item in subsequent years is converted to a percentage of the base year.

[1] In this chapter, most of the description are based on *101 FINANCIAL RATIOS 5.0*, wrote by Tom Welch. Publisher: Tom Welch, MBA, CPC. 5th edition, 2012. 21 Pages. ASIN: B007RGYTXO.

2.2 Financial ratio analyses

Financial ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial statements. The level and historical trends of these ratios can be used to make inferences about a company's financial condition, its operations and attractive as an investment.

2.2.1 Activity ratio

Inventory turnover is a measure of the number of times inventory is sold or used in a given period such as one year. It is a good indicator of inventory quality, and inventory management. This ratio is important because gross profit is earned each time inventory is turned over.

$$Inventory\ Turnover = \frac{Cost\ of\ \ Goods\ Sold}{Average\ Inventory} \tag{2.1.1}$$

There is no general standard for the inventory turnover, it should be compared against industry averages. A relatively low inventory turnover may be the result of ineffective inventory management and poor sales or carrying out-of-date inventory to avoid cancelling inventory losses against income. Normally a high number indicates a greater sales efficiency and a lower risk of loss. However, too high an inventory turnover means that is out of proportion to industry standard may suggest losses due to shortages, and poor customer-service. A high value for inventory turnover usually accompanies a low gross profit figure. This means that a company needs to sell a lot of items to maintain an enough return on the capital invested in the company.

The receivable turnover ratio indicates a company's debt collection, the number of times average receivables are turned over during a year. This ratio determines how quickly a company collects outstanding cash balances from its customers during an period. It’s an important indicator of a company's financial and operational performance and it can also used to determine if a company is having difficulties collecting sales made on credit.

Receivable turnover ratio indicates how many times, on average, account receivables are collected during a year. A popular variant of the receivables turnover ratio is to convert it into an Average collection period in terms of days.

$$Receivable\ Turnover = \frac{Total\ Revenue}{Average\ Receivables} \tag{2.1.2}$$

There isn’t general standard for the receivables turnover ratio, it depends on the industry and other factors. The higher the value of receivable turnover, the more efficient or more liquid the debtors are, the better the company is in terms of collecting their accounts receivables. Similarly, low debtors turnover ratio implies inefficient management of debtors or less liquid debtors. But in some cases too high ratio can indicate that the company's credit lending policies are too stringent, preventing prime borrowing candidates from becoming customers.

Asset turnover is a financial ratio that measures the efficiency of a company's use of its assets to product sales. It is a measure of how efficiently is using the assets. The ratio helps to measure the productivity of a company's assets.

$$Total\ Assets\ Rurnover = \frac{Total\ Revenue}{Average\ Total\ Assets} \tag{2.1.3}$$

There is no set number that represents a good total asset turnover value because every industry has different business models. It also depends on the proportion of labor costs to the capital required.

The higher the number, the better it is. If there is a low turnover, it may be an indication that the business should utilize assets in a more efficient manner or sell them. But it also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover. It should be noted that the asset turnover ratio doesn't look at how well a company is earning profits relative to assets. The asset turnover ratio only looks at revenues and net profits. This is the obvious difference between return on assets and the asset turnover ratio.

2.2.2 The operating cycle and its component

Most companies want short operating cycles, because it creates cash flow to cover the company's liabilities. A long operating cycle often borrowing and thereby reduces profitability.

Number of Days Inventory is also known as average inventory period and inventory holding period. The days of inventory ratio is an important financial ratio that gives an idea that how long a product sits on the shelf before it is sold. If this ratio is high, there may not be enough demand for the item and it may need to get pulled in order to make space for a better selling item. If it is too low, it might need to increase inventory of this item in order to have enough on hand.

$$Number\ Of\ Days\ Inventory = \frac{Inventory}{Average\ \ Days\ \ Of\ \ Cost\ \ Of\ \ Goods\ \ Sold} = \frac{Inventory}{Cost\ \ Of\ \ Goods\ \ Sold\ /365} \tag{2.2.1}$$

One component of this ratio is the inventory turnover ratio, which calculates the number of times the total inventory of an item is sold and replaced over a period of time.

The number of days of receivable, told the average number of days it takes to collect an account receivable.

$$Number\ Of\ Days\ Receivables = \frac{Account\ Receivable}{Average\ Days\ Revenue} = \frac{Account\ Receivable}{(Revenue/365)} \tag{2.2.2}$$

The calculation for determining the days' sales in accounts receivable is the number of days in the year, divided by the accounts receivable turnover ratio for a specific year.

The number of days of payables is how long it takes when a company to pay its creditors.

$$Number\ Of\ Days\ Of\ Payables = \frac{Account\ Payable}{Average\ Days\ Purchase}$$

$$= \frac{Account\ Payable}{Purchase/365} \qquad (2.2.3)$$

Generally, the larger number is better when it comes to days payable, the longer a company holds on to its money before paying its bills, the longer that money can stay in the bank and earning interest for the company.

Operating cycle is the length of time between the gain of inventory and the sale of inventory. The shorter the operating cycle, the faster a business gets a return on investment. As a general rule, companies want to keep their operating cycles short for a number of reasons, but in industries, a long operating cycle is actually the standard. Operating cycles are not tied to accounting periods, but are rather calculated in terms of how long goods stay in inventory before it sale.

Operating cycle= number of days of receivables+ number of days of payables (2.2.4)

Operating cycles can flow. During periods of economic stop, inventory tends to stay around longer, while periods of growth may be marked by more rapid turnover. Certain products can be consistent sellers that move in and out of inventory quickly. Others items, may be purchased less frequently. All of these issues must be accounted for when making decisions about ordering and pricing items for inventory.

2.2.3 Liquidity Analysis

The current ratio is balance-sheet financial performance measure of company liquidity. The current ratio indicates a company's ability to meet short-term debt obligations. The current ratio measures whether a firm has enough resources to pay its debts or not over the next 12 months. Potential creditors use this ratio to determining whether to make short-term loans or not. The current ratio can also give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash.

$$Current\ Ratio = \frac{Current\ Asset}{Current\ Liability} \tag{2.3.1}$$

The higher the ratio, the more ability of liquid the company is. Commonly acceptable current ratio is 2. It's a standard financial position for most enterprises. Acceptable current ratios vary from industry to industry. For most industrial companies, 1.5 may be an acceptable current ratio.

Low values for the current ratio indicate that a firm may have difficulty meeting current obligations. However, investors should also take note of a company's operating cash flow in order to get a better sense of liquidity. A low current ratio can often be supported by a strong operating cash flow. If the current ratio is too high, then the company may not be using its current assets or its short-term financing efficiently. This may also indicate problems in working capital management.

The quick ratio is a measure of a company's ability to show short-term obligations when using its liquid assets. Quick assets include those current assets that can be quickly converted to cash at close to their book values. Quick ratio is viewed as a sign of a company's financial strength or shortage, it gives information about a company’s short term liquidity. The ratio tells creditors how much of the company's short term debt can be met by selling all the company's liquid assets at very short notice.

$$Quick\ Ratio = \frac{(Current\ Assets\ -\ Inventories)}{Current\ Liabilities} \tag{2.3.2}$$

The higher the quick ratio, the better the position of the company is. The commonly acceptable current ratio is 1, but may different from industry to industry. If one company with a quick ratio less than 1 which means it can't currently pay back its current liabilities, it's the bad sign for investors and partners.

Cash ratio is the ratio of a company's cash and cash equivalent assets to its total liabilities. Cash ratio is a kind of quick ratio and indicates the degree which available funds can pay off current liabilities. Potential creditors use this ratio as a measure of a company's liquidity and how well it can service debt and cover short-term liabilities.

Cash ratio is the most conservative of the three liquidity ratios (current, quick and cash ratio). It only looks at the company's liquid short-term assets – cash and cash equivalents – which can be most easily used to pay off current obligations.

$$Cash\ Ratio = \frac{Cash\ And\ Cash\ Equivalents}{Current\ Liabilities} \tag{2.3.3}$$

Cash ratio is not as popular in financial analysis as current or quick ratios. There is no common standard for cash ratio. In some countries, cash ratio doesn't less than 0.2 is considered as acceptable. But if ratio is too high may show poor asset utilization for a company when holding a huge amount of cash on balance sheet.

2.2.4 Solvency analysis

The debt to asset ratio is the percentage of total debt financing the firm uses as compared to the percentage of the firm's total assets. It helps to see how much assets are financed using debt financing.

$$Debt\ To\ Asset\ Ratio = \frac{Total\ Debt}{Total\ Assets} \tag{2.4.1}$$

It need to compare this result with other years of data for the firm and with the debt to assets ratio for other firms in industry. If debt ratio is too high, then need to take a serious look and find why.

Debt-to-equity ratio is a financial ratio indicating the relative proportion of entity's equity and debt used to finance an entity's assets. This ratio is also known as **financial leverage.**

Debt-to-equity ratio is the key financial ratio and is used as a standard for judging a company's financial standing. It is also a measure of a company's ability to repay its obligations. When checking the health of a company, it need to pay attention to the debt/equity ratio. If the ratio is increasing, the company is being financed by creditors rather than from its own financial sources, and this may be a dangerous trend. Lenders and investors usually prefer low debt-to-equity ratios because their interests are better protected in the event of a business decline. So, companies with high debt-to-equity ratios may not be able to attract additional lending capital.

$$Debt\ To\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Shareholders'\ Equity} \qquad (2.4.2)$$

Optimal debt-to-equity ratio is considered to be around 1, but the ratio is very industry specific because it depends on the proportion of current and non-current assets. The more non-current assets, the more equity is required to finance these long term investments.

For most companies the maximum acceptable debt-to-equity ratio is 1.5 to 2 or less. For large public companies the debt-to-equity ratio may be more than 2, but for most small and medium companies it’s not acceptable. In general, a high debt-to-equity ratio indicates that a company may not be able to create enough cash to satisfy its debt obligations. However, a low debt-to-equity ratio may also indicate that a company is not taking advantage of the increased profits.

Financial leverage can be described as the extent to which a business or investor is using the borrowed money. Business companies with high leverage are considered to be at high risk of bankruptcy. If, in case, they are not able to repay the debts, it might lead to difficulties in getting new lenders in future. But financial leverage is not always bad. However, it can lead to an increased shareholders' return on investment. Also, there are tax advantages related with borrowing, also known as leverage.

$$Financial\ Leverage = \frac{Total\ Assets}{Total\ Shareholders's\ Equity} \quad (2.4.3)$$

Financial leverage indicates the reliability of a business on its debts in order to operate. Knowing about the method of calculating financial leverage can help to determine a business' financial solvency. If the financial leverage ratio of a company is higher than 2 to 1, it indicates financial is weak. If the company is leveraged highly, it is considered to be near bankruptcy. Also, it might not be able to secure new capital if it is incapable of meeting its current obligations.

2.2.5 Coverage ratio

Cash flow coverage ratio is an indicator of the ability of a company to pay interest and principal amounts when they become due. This ratio tells the number of times the financial obligations of a company are covered by its earnings. A ratio equal to one or more than one means that the company is in good financial health and it can meet its financial obligations through the cash generated by operating activities. A ratio of less than one is an indicator of bankruptcy of the company within two years if it fails to improve its financial position. It is an important indicator of the liquidity position of a company. This ratio is often used by the banks to decide whether to make or refinance any loan.

$$Cash\ Flow\ Coverage\ Ratio = \frac{Operating\ Cash\ Flows}{Total\ Debt} \quad (2.5.1)$$

The figure for operating cash flows can be found in the statement of cash flows. Total debt includes the interest, short-term borrowings, current portion of long-term debt and long-term debt. This ratio shows the ability of a company to pay its debt from the cash it generates from its operations. A very low ratio can be an indication of too much debt or poor cash generation

2.2.6 Profitable analysis

Measure a company's ability to generate earnings relative to sales, assets and equity. These ratios evaluate the ability of a company to generate earnings, profits and cash flows, often the amount of money invested. They highlight how effectively the profitability of a company is being managed. profitability ratios include return on sales, return on investment, return on equity, gross profit margin and net profit margin. All of these ratios indicate how well a company is performing at generating profits or revenues relative to a certain metric.

Gross profit margin (gross margin) is the ratio of gross profit to sales revenue. It is the percentage by which gross profits beyond production costs. Gross margins show how much a company earns when considered the costs. Gross margin is a good indication of how profitable a company is at the most fundamental level, how efficiently a company uses its capital, materials, and labor. It is usually expressed as percentage, it is a measure of how well a company controls costs.

$$Gross\ Profit\ Margin = \frac{Gross\ Profit}{Total\ Revenue} \tag{2.6.1}$$

Gross margin measures a company's manufacturing and distribution efficiency during the production process. The higher the percentage, the more company remain on each dollar of sales and obligations, the better the company is considered to control costs. Investors always use the gross profit margin to compare companies with industry and also in different industry. They want to determine which are the most profitable. A company has a higher gross margin than its competitors and industry is efficiency.

The operating profit margin ratio indicates how much profit a company earns after paying for some kinds of costs of production, such as wages, raw materials. It is considered as a percentage of sales and shows how efficiency a company controlling the costs and expenses relative to business operations. Terms used to describe operating profit margin ratios, this include operating margin, operating income margin, operating profit margin or return on sales.

$$Operating\ Profit\ Margin = \frac{Operating\ Income}{Total\ Revenue} \tag{2.6.2}$$

Net profit margin is a ratio of profitability calculated as net profits divided by revenue. Net profit margin is displayed as a percentage form. It shows the amount of each sale left over, after whole expenses have been paid.

Net profit margin is a key ratio of profitability. It is very useful when comparing companies with industries. A higher net profit margin means that a company is more efficient at converting sales into profit.

$$Net\ Profit\ Margin = \frac{Net\ Income}{Total\ Revenue} \tag{2.6.3}$$

Return on assets (ROA) is the percentage of profit that a company earns relative to its total assets. Return on assets is an important profitability ratio which use measures the amount of profit which made by a company of its assets. It shows one company's ability to generate profits before leverage, rather than by using leverage. Unlike other profitability ratios, ROA measure include all kind of company's assets, including arise from liabilities to creditors as well as those which arise from contributions by investors. So, ROA gives an idea that how efficiently management use company assets to gain profit.

$$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Assets} \tag{2.6.4}$$

Return on assets shows that capital intensity of the company, which will depend on the industry. Capital-intensive industries will yield a low return on assets, since they must possess such valuable assets to do business. Small capital operations will have a high ROA, their required assets are minimal. The number will change across different industries. This is why, when using ROA as a comparative measure, it is best to compare it against a company's previous ROA figures or the ROA of a similar company.

Return on equity (**ROE**) is the amount of net income returned as a percentage of shareholders equity. It shows how much profit a company gained in comparison to the total amount of shareholder equity base on balance sheet.

ROE is one of the most important financial ratios and profitability index. It’s said that ROE is the ultimate ratio or we can say the ‘mother of all ratios’, so it can be obtained from a company’s financial statement. It measures how profitable a company is from the investment, and how profitably a company employs its equity.

$$ROE = \frac{Net\ Income\ After\ Tax}{Shareholder's\ Equity} \tag{2.6.5}$$

The higher the ROE, the better it is. But a higher ROE does not mean better financial statement of a company. As shown above, in the DuPont formula, the higher ROE can be the result of high financial leverage, but too high financial leverage is dangerous for a company's solvency.

2.2.7 The DuPont analysis

DuPont analysis using some important part of financial ratio to analysis company financial statement, this kind of analysis is used by DuPont in America at the earliest, so we call DuPont analysis. DuPont analysis is use for evaluating the profitability of the company and the degree of shareholders’ equity return. The basic idea is pyramidal decompose ROE to small part of financial ratio, through this method, is easier to analysis a company financial statement deeply.

Basic formula

The return on equity ratio is a standard of the rate of return to shareholders. Decomposing the ROE into various factors influencing company performance is often called the Du Pont system. If ROE is in shortage, we can find the bad part through DuPont analysis.

$$ROE = \frac{Net\ Profit}{Equity} = \frac{Net\ Profit}{Pretax\ Profit} \times \frac{Pretax\ Profi}{EBIT} \times \frac{EBIT}{Sales} \times \frac{Sales}{Assets} \times \frac{Assets}{Equity} \tag{2.7.1}$$

The return on assets (ROA) ratio developed by DuPont for its own use is now used by many firms to evaluate how effectively assets are used. It measures the combined effects of profit margins and asset turnover.

$$ROA = \frac{Net\ Income}{Sales} \times \frac{Sales}{Total\ Assets} = \frac{Net\ Income}{Total\ Assets} \tag{2.7.2}$$

Shortage of DuPont analysis

If we comprehend this method from performance evaluating angle, we would know that DuPont analysis just include the information about the financial part, it can't reflect the strength of company totally. Through this method, management may focus on short-term result of finance, and then, ignore long-term value creation of company.

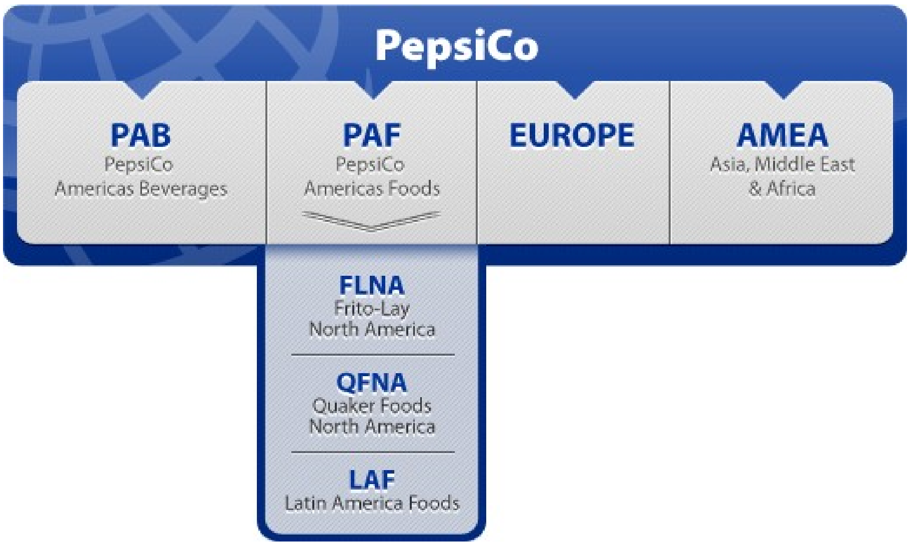
But now in the information age, customers, supplier, employee and technology innovation factors is impact more to enterprise business performance. DuPont analysis is useless when facing these factors, moreover DuPont analysis can't solve the issue of evaluating of intangible assets.

3 Financial characterization of PepsiCo

In this chapter, it mainly introduces some basic information about PepsiCo, for example, company's history, brands, construction, and so on. Through this chapter, it might known more information about this company.

There is one picture can display the structure of PepsiCo as follow:

Figure 3.1 Structure of PepsiCo



(Source from annual report of PepsiCo, corporate profile)

About Pepsi Beverages Company

Pepsi Beverages Company (PBC) is PepsiCo's beverage manufacturing, sales and distribution operating unit in the United States, Canada and Mexico. PBC handles approximately 75 percent of PepsiCo's North America beverage volume. Its diverse portfolio includes some of the world's most widely recognized beverage brands, including Pepsi, Mountain Dew, Sierra Mist, Aquafina, Gatorade, SoBe, Lipton, and Amp Energy. In many markets, PBC also manufactures and/or distributes non-Pepsi brands, including Dr Pepper, Crush, ROCKSTAR, and Muscle Milk. The operating unit is headquartered in Westchester County, New York and employs approximately 70,000 people.[2]

[2] Data source is from annual report of PepsiCo in the part of The PepsiCo family.

3.2 Pepsi in Europe

PepsiCo Europe is one of the region's leading food and beverage companies. Encompassing over 60,000 employees, almost 900 million consumers, 11 time zones and 45 countries, the business spans from Russia west to Portugal, and Turkey north to Norway. With estimated net revenues of $13 billion, PepsiCo Europe brings to the market some of the world's most respected household names – brands including Quaker Oats, Tropicana, Gatorade, Walkers, Lay's and Pepsi-Cola, as well as local favourites such as Walkers, Fruktovy Sad, Ya, Tonus, Hrusteam, Russky Dar, Yedigun, Alvalle, Kas, Matutano, Benenuts, Star Chips, Duyvis and Sandora.

3.3 Brands

3.3.1 Pepsi-Cola Brands

Pepsi has been bringing fun and refreshment to consumers for over 100 years. Learn more about our flagship brand and the broad spectrum of beverages it offers worldwide. Pepsi-Cola North America is the refreshment beverage unit of PepsiCo, Inc., in the United States and Canada. Its U.S. brands include Pepsi, Mountain Dew, Sierra Mist, SoBe, AMP Energy, IZZE, Naked Juice, Propel, Mug, and Aquafina, among others. The company also makes and markets North America's best-selling ready-to-drink iced teas and coffees, respectively, via joint ventures with Lipton and Starbucks. From its humble beginnings over a century ago, Pepsi-Cola has grown to become one of the best-known, most-loved products throughout the world. Today, the company continues to innovate, creating new products, new flavors and new packages in varying shapes and sizes to meet the growing demand for convenience and healthier choices. Pepsi is constantly on the lookout for ways to ensure their consumers get the products they want, when they want them and where they want.

3.3.2 Frito-Lay Brands

Employing over 48,000 people and bringing in over $13 billion of business, Frito-Lay invigorates PepsiCo's portfolio of products with plenty of good food and 'good fun'.

Frito-Lay North America is the $13 billion convenient foods business unit of PepsiCo. For more than 75 years, Frito Lay has enjoyed growing the best snacks on earth starting with simple, farm-grown ingredients. Frito-Lay is also dedicated to giving consumers a wider range of healthier choices. They offer great-tasting chips with less fat through their Baked! Line and snacks made only from natural ingredients, which contain no artificial colors, flavors or preservatives with their Natural line. All of their snack chips contain zero grams of trans fat.

3.3.3 Tropicana Brands

Tropicana, the strongest name in juices, extends the PepsiCo portfolio of brands with plenty of nutritious, high-quality flavors.

Tropicana Products, Inc., a division of PepsiCo, Inc., is the leading producer and marketer of branded fruit juices. Tropicana markets its products in the U.S. under a variety of brand names, including the Tropicana not-from-concentrate line of juices: Dole® juices and juice blends; Tropicana® Juices, Trop50 and Tropicana Twister® juice beverages. The Dole brand name is licensed from Dole Food Company, Inc.

3.3.4 Gatorade Brands

Available in more than 80 countries, Gatorade's line of performance drinks adds over 45 years of rehydration and sports nutrition research to the PepsiCo portfolio.

In early summer of 1965, a University of Florida assistant football coach sat down with a team of university physicians and asked them to determine why so many of his players were being affected by heat and heat-related illnesses. The researchers Dr. Robert Cade, Dr. Dana Shires, Dr. H. James Free and Dr. Alejandro de Quesada soon discovered two key factors that were causing the Gator players to "wilt": the fluids and electrolytes the players lost through sweat were not being replaced, and the large amounts of carbohydrates the players' bodies used for energy were not being replenished. The researchers then took their findings into the lab, and scientifically formulated a new, precisely balanced carbohydrate-electrolyte beverage that would adequately replace the key components lost by Gator players through sweating and exercise. They called their concoction "Gatorade." In 1983, Gatorade became the official sports drink of the NFL — a title it holds to this day. Gatorade also is the official sports drink of the NBA and WNBA, Major League Baseball, Major League Soccer, more than 70 Division I colleges, and numerous other elite and professional organizations and teams

3.3.5 Quaker Brands

Quaker's power-packed line of popular brands expands our portfolio with a wide range of healthy food choices.

Quaker brands have been around for over a century. They are symbols of quality, great taste, and nutrition. Holding No.1 positions in their respective categories are favorites such as Quaker Oats, Quaker Rice Cakes.[3]

3.4 Performance with purpose

Performance with purpose means delivering sustainable growth by investing in a healthier future for people and our planet. As a global food and beverage company with brands that stand for quality and are respected household names-Pepsi-Cola, Lay’s, Quaker Oats, Tropicana and Gatorade, to name but a few-we will continue to build a portfolio of enjoyable and healthier food and beverage, find innovative ways to reduce the use of energy, water and packaging, and provide a great workplace for associates. Additionally, PepsiCo respect support and invest in the local communities where they operate, by hiring local people, creating products designed for local tastes and partnering with local farmers, governments, and community groups.

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[3] Sources 3.3.1 to 3.3.5 are from title “Brands” of annual report of PepsiCo.

3.4.1 Human sustainability

PepsiCo is promise encourage people to live balanced and healthier lives. It committed to offering balance in their portfolio for customers to have a range of enjoyable and wholesome foods and beverages. They believe it's about providing people with choices, options to manage their portions, better nutrition education and compelling programs to encourage physical activity. By 2020, PepsiCo intend to triple their portfolio of wholesome and enjoyable offerings, while staying committed to the great taste and convenience that are expected of great brands.

3.4.2 Environmental sustainability

Respecting humanity's right to water and other natural resources is a priority for PepsiCo. That's why PepsiCo have invested in research, systems and facilities improvements. All of which decrease waste to landfills, create more sustainable packaging, reduce carbon footprint, lower energy and water use and improve the efficiency of operations. It's also why continue to work with global non-government organizations, national governments, local farmers and agronomists to pursue more sustainable growing practices, improve crop yields and support local growing collaborative. These initiatives are simply the right thing to do, and they also demonstrate PepsiCo's interest in the development of the agricultural supply chain in emerging markets.

3.4.3 Talent sustainability

Helping associates succeed and acquire the skills that enable growth also will help to sustain PepsiCo's long-term growth. A key component is attracting and developing the best people and empowering them to be innovative, take on new responsibilities and pursue exciting opportunities for themselves and the company. They also committed to supporting associates, their families and the communities where they live and we operate through local job creation, wellness initiatives and matching charitable contributions. We do all of this because we care about our associates, and because PepsiCo is successful when our people are empowered to develop their skills and lead healthier lives.[4]

3.5 PepsiCo's competitor

When we talk about Pepsi-cola, there is the other one famous company we should mention-Coca-Cola, the biggest competitor with PepsiCo. Coca-Cola invented earlier than PepsiCo for 4 years. In the whole world, Coca-Cola has 42% in the market, and PepsiCo has 32% and still try to defeat Coca-Cola.

Rivalry with Coca-Cola

The world's first bottle of Coca-Cola in 1886, was born in the United States, dating back over 113 years of history. This magical beverage, with its irresistible charms conquered hundreds of millions of consumers around the world, become a "drink the king of the world", and even enjoy "beverage empire" praise. However, the zenith in the Coca-Cola, even also hold high the banner of "Coke", the courage to challenge the enterprise, it claimed to be "all over the world customer favorite company, and in the confrontation with the Coca-Cola war, the stronger, culminating in the trend of rival, and this is PepsiCo.

The world's first bottle of Pepsi also born in the United States, it was in 1898 later than the advent of Coca-Cola for 12 years last year. Its taste is similar to the same recipe top secret Coca-Cola, so they borrowed the trend of Coca-Cola named Pepsi.

Coca-Cola as early as 10 years ago has begun to vigorously explore the market, this time has long been famous, control most of the carbonated drinks market, set in the minds of most people, mention of cola, it is none other than the Coca-Cola, Pepsi before World War II has been no improvement, and has twice the brink of bankruptcy, the beverage market, Coca-Cola dominate the world.

In the beverage industry, Coca-Cola and Pepsi is the market leader in market followers (Challenger). As market followers, there are two strategies to choose from: the attack in order

[4] Sources above are from annual report of PepsiCo. Title 3.1 to 3.2 are from The PepsiCo family of annual report of PepsiCo, title 3.3 is from Our Brands of annual report of PepsiCo. Title 3.4 is from performance with purpose of PepsiCo.

to capture more market share to market leader; or participate in the competition, but not to a significant change of market share. Obviously, after nearly half a century of practice, PepsiCo found that the latter option even the company's survival cannot guarantee and is not feasible. Pepsi began to adopt the former strategy, to send a strong challenge to Coca-Cola.

The cola war between PepsiCo and Coca-Cola is not only cola. PepsiCo seems to be losing the cola war when compete with Coca-Cola. But now, the forced of the strategic shift make the newest competition in the world.

In 1996, the profit margin of PepsiCo is 47% behind Coca-Cola, and the market value is less than a half to Coca-Cola.

Until today, on the most part of the country and the area, the market share of Coke carbonated drinks of Coca-Cola always running ahead of PepsiCo, but the new competition of these two companies have something different change.

In the last of the 2005, because the excellent performance on food market, the market value of PepsiCo has beyond Coca-Cola for the first time. And in 2009, PepsiCo has become a huge company which sales amount has achieved 60 billion USD dollars. The product of PepsiCo step over Carbonated drinks, Leisure food, juice, and health food, it has become the second biggest Food and Beverage Company in whole world. As the consumers are more focus on the health, the trend of carbonate drinks are decrease every year, but juice and healthy drinks are more welcome in these year.

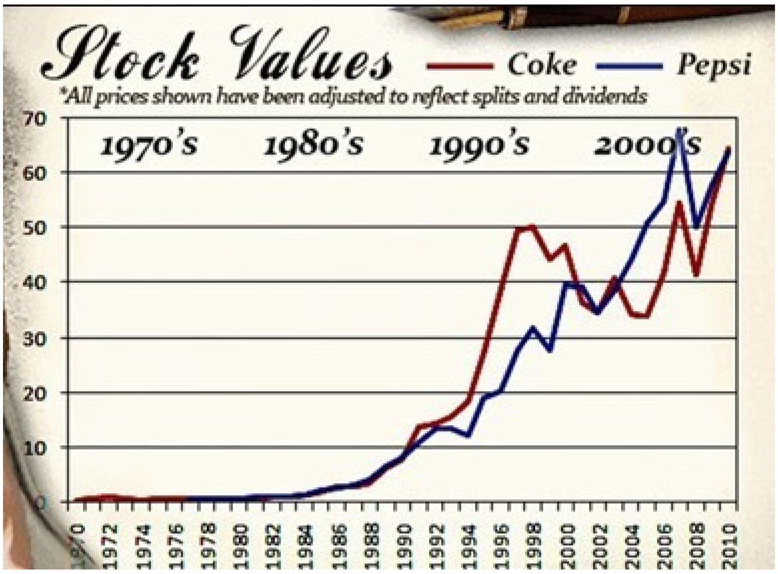
Actually, in 1965, Pepsi combined with Frito-lay, which was produced leisure food in America, and change his name as PepsiCo. So, PepsiCo make their product not only on carbonate drinks area but also leisure food field. Lay's potato chips has occupied over a half market share in America. Even though, PepsiCo still put their focus on the Pepsi cola in a long time.

In 1996, the market share between PepsiCo and Coca-Cola has achieved 11%, this is the biggest different between two company since 1960. All the sounds say Coca-Cola has won this cola war. But now we can see, this is not the bad thing for Coca-Cola, because the twilight of carbonate drinks is coming. Actually, the sale of carbonate drinks in America falling down since 1991, besides 1994 to 1998 increasing temporary. The market growth still kept decreasing every year. But on the contrary, purified water, juice and Functional health drinks' are required more.

In 1998, PepsiCo merger Tropicana, and get into juice market. PepsiCo merger SoBe in 2000. At August 2001, PepsiCo combined with Quaker. Through this merger, PepsiCo own Gatorade which has the most of the market share on sport drinks. On 2002, PepsiCo occupied 25% market share on uncarbonated drinks industry, is 1.5 times bigger than Coca-Cola. At the last of 2005, the market value has beyond Coca-Cola for the first time. The confident from the investors is not the performance of carbonate drinks, but the performance of uncarbonated drinks. So PepsiCo has chance to defeat Coca-Cola, but not in cola field.

Research company had conducted a survey, Coca-Cola is the world's OK outside, the most people understand a word. As the 1970s, a German evaluated, "If the film is the soul of the United States, then Coca-Cola is the fuel of USA."And earlier than their own "authentic flavour", representing the American spirit, compared to Coca-Cola, Pepsi-Cola for a long period of time has been at a disadvantage, as Pepsi CEO once said: "For a long time, PepsiCo like running in the wilderness, constantly looking for opportunities. "In the initial stage, Pepsi had sales of poor taste like Coca-Cola, so some retailers put Pepsi irrigation to the Coca-Cola bottle to go marketing, which can be seen as a prelude of the war between the two musics.

Figure 3.2 Stock values between Cola and Pepsi



(Source is from http://www.tesoon.com/english/htm/11/50464.htm)

Table 3.1 Assets details of vertical common analysis

Assets	in Millions of USD					percentage				
	12/2010	12/2009	12/2008	12/2007	12/2006	12/2010	12/2009	12/2008	12/2007	12/2006
Cash and Equivalents	5,943	3,943	2,064	910	1,651	8.72%	9.90%	5.73%	2.63%	5.52%
Marketable Securities	426	192	213	1,571	1,171	0.63%	0.48%	0.59%	4.54%	3.91%
Accounts Receivable	6,323	4,624	4,683	4,389	3,725	9.28%	11.60%	13.01%	12.67%	12.45%
Inventories	3,372	2,618	2,522	2,290	1,926	4.95%	6.57%	7.01%	6.61%	6.44%
Prepaid Expenses	1,505	1,194	1,324	991	657	2.21%	3.00%	3.68%	2.86%	2.20%
Total Current Assets	17,569	12,571	10,806	10,151	9,130	25.78%	31.55%	30.02%	29.31%	30.50%
Intangibles	13,808	2,623	1,128	2,044	1,849	20.26%	6.58%	3.13%	5.90%	6.18%
Other Non-Current Assets	3,057	5,449	7,273	6,036	4,670	4.49%	13.67%	20.21%	17.43%	15.60%
Total Assets	68,153	39,848	35,994	34,628	29,930	100%	100%	100%	100%	100%

In this vertical common-size analysis, we can see cash and equivalents decreased in 2007 in table 3.2, it is the lowest point in recent five years, PepsiCo may using this part of cash to invest in some new project or merger others company. In another way, Pepsi increased investment, increased inventories and bought fixed assets would the main reason that decreased the cash and equivalents. From 2009 and 2010, cash and equivalents increased to around 9% to 10%, which means Pepsi decreased investment or the efficiency of using cash become lower. Specially, total current assets and intangibles were stable in pre four years but changing obviously in 2010. These changes may caused by the affect of economic crisis in 2008 until now.

Accounts receivable, inventories and cash equivalents were trend to decrease in 2010, which caused total current assets decreased. Pepsi used current assets to invested in intangibles assets and make intangibles assets increased.

Table 3.2 detail of liabilities

Liabilities	in Millions of Dollars					percentage				
	12/2010	12/2009	12/2008	12/2007	12/2006	12/2010	12/2009	12/2008	12/2007	12/2006
Long Term Debt	19,999	7,400	7,858	4,203	2,550	29.34%	18.57%	21.83%	12.14%	8.52%
Deferred Income Tax	4,057	659	226	646	528	5.95%	1.65%	0.63%	1.87%	1.76%
Other Non-Current Liabilities	6,620	5,487	6,541	4,792	4,624	9.71%	13.77%	18.17%	13.84%	15.45%
Total Liabilities	46,880	22,940	23,888	17,303	14,483	68.79%	57.57%	66.37%	49.97%	48.39%
Common Shareholder's Equity	21,232	16,867	12,065	17,325	15,447	31.15%	42.33%	33.52%	50.03%	51.61%
Total Liabilities & Shareholder's Equity	68,153	39,848	35,994	34,628	29,930	100%	100%	100%	100%	100%

Table 3.3 indicated liabilities condition. Pepsi loan money to invested in new project or put the money into technological research for expand market, this activity increasing long-term debt from 2006 to 2010. We can see Long-term debt get a highest percentage in 2010. This operation is wise because PepsiCo can gain additional value by tax shield. Total liabilities keep increasing is better for PepsiCo, because is the necessary to occupy beverage market and against with Coca-Cola.

Income tax gain 4% increased in 2010, the law of taxation asked these items to be included in firm tax returns at different times than the items are reflected in financial statements. As a result, the annual tax rate reflected in financial statements is different than reported in tax returns.

Horizontal common-size analysis

Table 3.3 Income statement details of Horizontal common analysis

					in Millions of Dollars					Percentage
	12/2010	12/2009	12/2008	12/2007	12/2006	12/2010	12/2009	12/2008	12/2007	12/2006
Total Revenue	57,838	43,232	43,251	39,474	35,137	165%	123%	123%	112%	100%
Operating Income	8,332	8,044	6,959	7,170	6,439	129%	125%	108%	111%	100%
Interest Expense	-903	-397	-329	-224	-239	278%	66%	38%	-6%	100%
Income Taxes	-1,894	-2,100	-1,879	-1,973	-1,347	141%	156%	139%	146%	100%
Gross Margin	33,473	24,705	24,379	22,804	20,619	162%	120%	118%	111%	100%
(EBIT)	9,135	8,476	7,374	7,855	7,228	126%	117%	102%	109%	100%
Total Net Income	6,320	5,946	5,142	5,658	5,642	112%	105%	91%	100%	100%

In horizontal common-size analysis, year 2006 was set as benchmark. Compare with recent five years, total revenue keep raising all the time, Pepsi caught chance and gain profit even some economic problems happened in the world, it's a good condition. Cost of sales and cost of material decreased lead to gross margin increased in five years. This item is one factor which influences EBIT as well, increasing gross margin gain more profit, and earning increased also. So EBIT increased with gross margin.

In the year ended December 25, 2010, Pepsi paid $672 million in a cash tender offer to repurchase $500 million (aggregate principal amount) of our 7.90% senior unsecured notes maturing in 2018. As a result of this debt repurchase, we recorded a $178 million charge to interest expense, primarily representing the premium paid in the tender offer.[5]

Gross margin keep increasing in five years means that Pepsi control the cost better than pre-years. The higher gross margin, the lower cost it is, the more benefit we get.

Table 3.4 balance sheet details of Horizontal common analysis

	in Millions of Dollars					Percentage				
	12/2010	12/2009	12/2008	12/2007	12/2006	12/2010	12/2009	12/2008	12/2007	12/2006
Cash and Equivalents	5,943	3,943	2,064	910	1,651	360%	239%	125%	55%	100%
Marketable Securities	426	192	213	1,571	1,171	36%	16%	18%	134%	100%
Accounts Receivable	6,323	4,624	4,683	4,389	3,725	170%	124%	126%	118%	100%
Inventories	3,372	2,618	2,522	2,290	1,926	175%	136%	131%	119%	100%
Prepaid Expenses	1,505	1,194	1,324	991	657	229%	182%	202%	151%	100%
Total Current Assets	17,569	12,571	10,806	10,151	9,130	192%	138%	118%	111%	100%
Intangibles	13,808	2,623	1,128	2,044	1,849	747%	142%	61%	111%	100%
Other Non-Current Assets	3,057	5,449	7,273	6,036	4,670	65%	117%	156%	129%	100%
Total Assets	68,153	39,848	35,994	34,628	29,930	228%	133%	120%	116%	100%

As we can see the table, cash and equivalents increased by 260% in 2010, 139% in 2009, this is a huge changed. Pepsi bought a huge amount of commercial paper, T-bills, banker acceptances or short-term bonds. Pepsi need short-term investment, that's why he bought so

5 (From annual report of PepsiCo in 2010 page 108)

many cash and equivalents items.

Account receivable added 18% in 2007, 26% in 2008, 24% in 2009 and 70% in 2010. The increasing was the highest point in 2010, this change perhaps affective by Euro debt crisis, as we know, Euro debt crisis, especially Greece debt crisis bring a huge wave of effect in the world, so this economic event may caused some changes to great enterprise in the world, this reason caused increased around 46% than pre-years. Because the need for the enterprise competition, they expand product and market share by using credit sales to promotion, especially promotion of new product, this is one of main reason which cause increasing of account receivable.

The reason that intangible asset increased fast in 2010 is Pepsi invested more capital to improved their known of brands, External purchased the intangible assets or researched independently by the intangible assets. Because of others item of assets was increasing, total assets increasing each year as well.

Table 3.5 liabilities details of Horizontal common analysis

	in Millions of Dollars					Percentage				
	12/2010	12/2009	12/2008	12/2007	12/2006	12/2010	12/2009	12/2008	12/2007	12/2006
Accounts Payable	10,923	8,127	8,273	2,562	2,102	520%	387%	394%	122%	100%
Total Current Liabilities	15,892	8,756	8,787	7,753	6,860	232%	128%	128%	113%	100%
Long Term Debt	19,999	7,400	7,858	4,203	2,550	784%	290%	308%	165%	100%
Deferred Income Tax	4,057	659	226	646	528	768%	125%	43%	122%	100%
Other Non-Current Liabilities	6,620	5,487	6,541	4,792	4,624	143%	119%	141%	104%	100%
Total Non-Current Liabilities	30,988	14,184	15,101	9,550	7,623	407%	186%	198%	125%	100%
Total Liabilities	46,880	22,940	23,888	17,303	14,483	324%	158%	165%	119%	100%
Common Shareholder's Equity	21,232	16,867	12,065	17,325	15,447	137%	109%	78%	112%	100%
Total Equity	21,273	16,908	12,106	17,325	15,447	138%	109%	78%	112%	100%
Total Liabilities & Shareholder's Equity	68,153	39,848	35,994	34,628	29,930	228%	133%	120%	116%	100%

Account payable has increased fast from 2007 to 2010, around 200%to 400%, which means company purchased a huge amount staff but need to paying back the debt.

Long-term debt increased around 200% in 2009 and 2008, 684% in 2010. It consists of things such as mortgages on corporate buildings or land, so the increased may caused by mortgages. In fact, companies with too much long term debt will make themselves shake with interest payments, having high debt percentage is always accompany with high risk, and Pepsi's debt has achieved nearly 800% which is very dangerous.

Total current liabilities changed in 2008 and 2009 were around 28%, but in 2010, the changed increased by 132%, the reason should be the increased of account payable and employee pay payable. Non-current liabilities increasing as well, when current and non-current liabilities increased together means that there are little capital to turnover and the firm can just solve problems through liabilities.

Equity increased 12% in 2007 but decreased 22% in 2008, PepsiCo may get lost in business in 2008 which cause equity decreased. In 2010, equity raise back and achieve 38%, this phenomenon show us Pepsi gain great profit than several previous year.

4 Financial analysis of PepsiCo

It will be explained why data or ratio changed in this chapter. The interpretation of these ratios should consider about the event of the company and economic cycle.

Financial ratio can classify into follow types:

- Activity ratio is use to evaluate a company's effective.
- Liquidity ratio is use to measure a company's ability to return their shout-term debt and obligations. It also means the ability of asset convert into cash in period.
- Solvency ratio is use to measure a company's ability to return their long-term debt and obligation.
- Profitability ratio is use to measure the ability to manage its expense to gain profit from sales.

4.1 Activity ratio analysis

Here it will describe the change of activity ratio.

Table 4.1 Activity Ratio

Assets					in Millions of USD
	12/2010	12/2009	12/2008	12/2007	12/2006
Total Assets	68,153	39,848	35,994	34,628	29,930
Total Revenue	57,838	43,232	43,251	39,474	35,137
Total asset turnover	1.07	1.14	1.22	1.22	
Accounts Receivable	6,323	4,624	4,683	4,389	3,725
Number of days of receivable	39.9	39.04	39.52	40.58	38.7
Accounts Payable	10,923	8,127	8,273	2,562	2,102

In this case, total assets increasing annually which means the loan from the bank, payable and shareholders' equity are increasing as well. From 2006 to 2010, the inventories, cash, receivable, prepaid expense and some others assets items are increasing every year, that's why total assets increasing. According to the table 4.1, we can also see the same situation of revenue in this table, the great assets operate gain profit, so company will get revenue from the strategy of the company or chance in the year.

Total asset turnover is stable in 2007 and 2008, they are 1.22, but we can see decreased in 2009 and 2010. According to formula (2.1.3), the less asset turnover, the faster turnover it's, the stronger ability of operation it's. So, Pepsi could accelerate assets turnover by small profits but quick turnover. This approach could also work and effect asset turnover. The firm could be holding inventory and not selling inventory fast enough. With regard to accounts receivable, PepsiCo collection period could be too long. Another item, fixed assets, such as equipment, could be sitting idle instead of being used their full capacity. All of these reasons could decrease the total asset turnover ratio.

In some market situation, buyer's market issue can caused the pressure of competition and may lead to account of receivable increased. Some firms in order to the need for competition, they always used sales on credit to promotion, especially for the new products, so we can see changing is very obvious in 2010. From 2007 to 2009, the data changing is gentle. Increases in accounts receivable that may indicate the PepsiCo is having trouble collecting money from its customers. Depending on the cash situation of PepsiCo, this could require it to borrow money to plug the hole from the unpaid money owed by its customers. Eventually, the company might need to write-off some of these account receivable as bad debt.

As we can see in table 4.1, the number of days of receivable is quite stable in recent five years, which means PepsiCo efficiency at using current capital and good at managing their inventories. They convert assets to cash very quickly which means PepsiCo operate business efficient.

Finally, it's quite easy to find that total asset and revenue keep increasing in past five years. What does it mean? This phenomenon told us that PepsiCo become more profitable and growth healthily, it s no very easy to keep increasing every year, but PepsiCo did it. Through activity ratio analysis we know that PepsiCo is profitable and in good condition so far.

Figure 4.1 Number of days of receivable

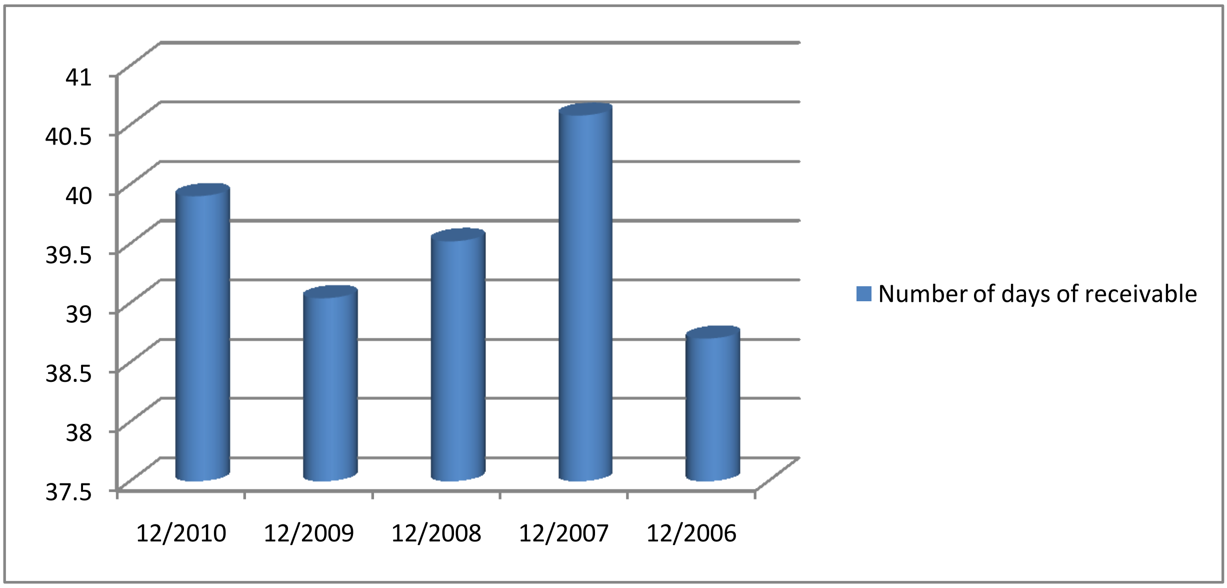
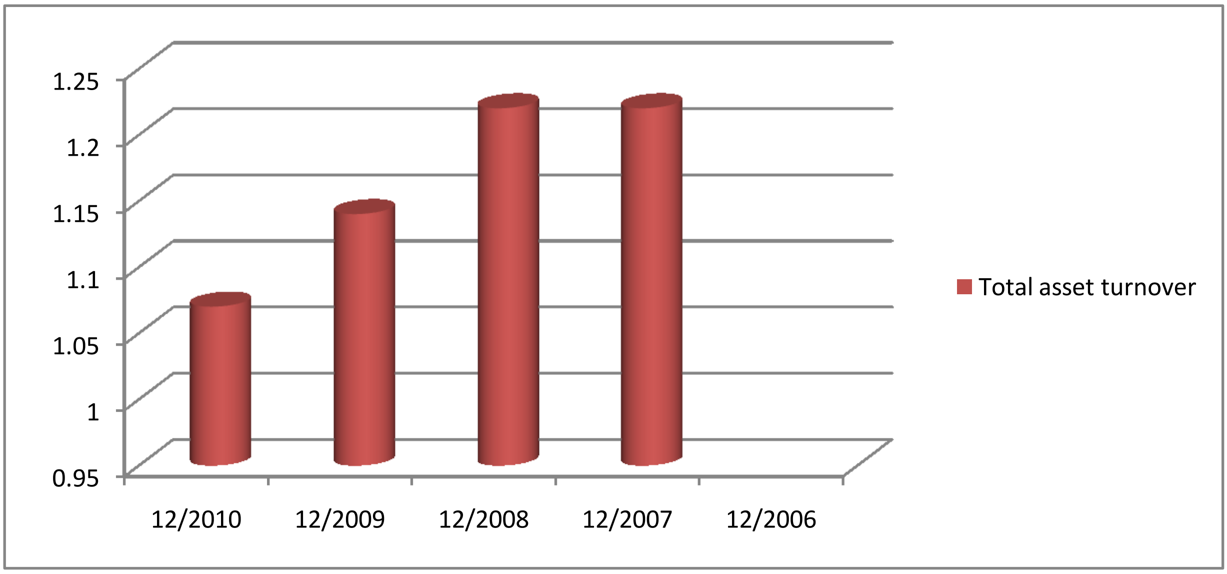


Figure 4.2 Total asset turnovers from 2007 to 2010



4.2 Liquidity ratios analysis

It will describe the change of liquidity ratio and explain the reasons.

Table 4.2 Liquidity Ratio

					in Millions of USD
	12/2010	12/2009	12/2008	12/2007	12/2006
Total Current Assets	17,569	12,571	10,806	10,151	9,130
Total Current Liabilities	15,892	8,756	8,787	7,753	6,860
Inventories	3,372	2,618	2,522	2,290	1,926
Cash And Equivalents	5,943	3,943	2,064	910	1,651
Current Ratio	110.55%	143.57%	122.97%	130.92%	133.09%
Quick Ratio	89.33%	113.67%	94.27%	101.39%	105.01%
Cash Ratio	37.39%	45.03%	23.48%	11.73%	24.06%

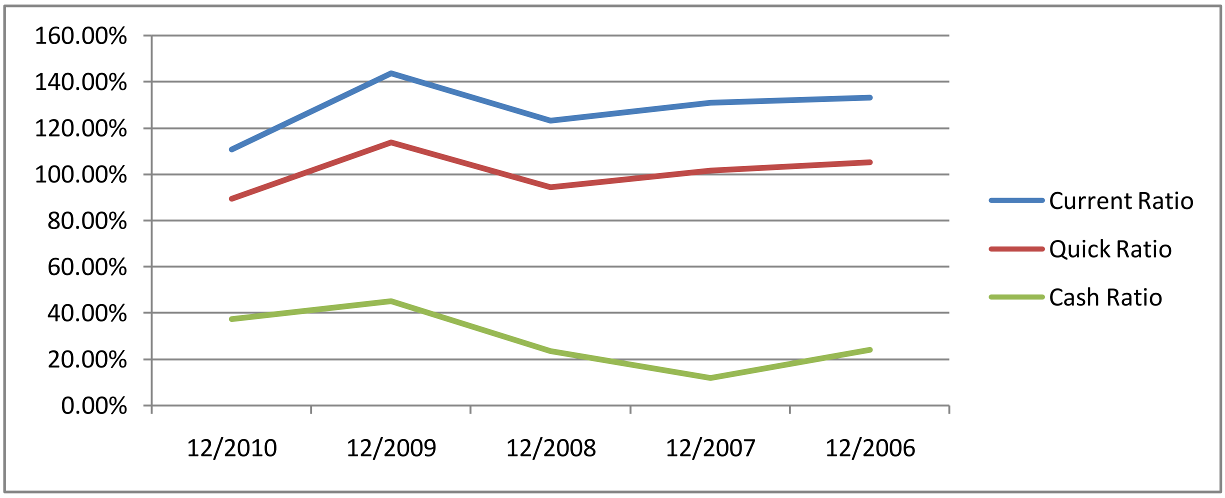
According to table 4.2, we can see that current ratio of PepsiCo from 2006 to 2010 was around 1.33 to 1.43, calculating by formula (2.3.1). These numbers means companies are facing trouble with short-term debt return which means companies can’t repay their debt less than one year. But we know that there are some firms are successful and influential as super stars in the world. They have their powerful and special sales channel to earn money back, they can produce enough cash flow to make sure that they can repay current liabilities on time, and this kind of firms is profitable that ensure their ability paying back, at the same time, they get so great credit rating level that can raise capital through issues commercial paper and loan. That is one reason that some super companies survive and grow. So, the lower current ratio, the more profit company can gain, but just limit by some successful firms.

Inventory is an important factor to influence current ratio as well. With increasing inventories of PepsiCo, that’s one of the reason make current ratio lower than standard level. As we can see the table 4.2, inventories of PepsiCo increased each year, there may some reason, PepsiCo increased their amount of products and try to sell them but fail. It might be on the disadvantage condition when compete with Coca-Cola, and make amount of sales decreased.

Quick ratio can evaluate the liquidity and short-term debt of enterprise more correctly than liquidity ratio because inventories are often difficult to convert to cash. Quick ratio should be 1.0 as standard level. If quick ratio is too low means that enterprise are facing problems to repay the short-term debt, if too high means it will increasing opportunity cost of enterprise. In this case, Quick ratio decreased nearly 7% in 2008, but increased back 20% in 2009. According to formula (2.3.2), this huge changing may generated by the effect of economic crisis in 2008, and after one year, economic revive in 2009 which make this index increasing back. Also, lending money and decreasing inventories made quick ratio increase in 2008 to 2009, and borrowing money and increase inventories made quick ratio decrease from 2009 to 2010.

According to table 4.2, in 2007, cash ratio was 11.73%, calculating by formula (2.3.3), the reason might be decreased cash asset in 2009 and 2010, cash ratio of PepsiCo has achieved 45% and 37.4%, this phenomenon is very abnormal, it has double times bigger than standard ratio which means PepsiCo did not using current liabilities to reduce the cost of capital very well and it would increasing opportunity cost of the enterprise. This is quite a bad news for PepsiCo, because over cost will make one company gain less margin profit, once a company losing profit, it will be very negative when comparing with its industry. In 2009 to 2010, Pepsi may earn profit and hold a huge amount of cash of asset that was one of the reasons.

Figure 4.3 Comparison of three types of liquidity



4.3 Long-term solvency analysis

Here it will describe the ability of long-term debt repayment.

Table 4.3 Solvency Ratio

	in Millions of USD				
	12/2010	12/2009	12/2008	12/2007	12/2006
Total Liabilities	46,880	22,940	23,888	17,303	14,483
Total Assets	68,153	39,848	35,994	34,628	29,930
Common Shareholder's Equity	21,232	16,867	12,065	17,325	15,447
Preferred Shareholder's Equity	41	41	41	-	-
Total Equity	21,273	16,908	12,106	17,325	15,447
Debt to asset ratios	68.78%	57.56%	66.36%	49.96%	48.38%
Equity ratio	220.37%	135.67%	197.32%	99.87%	93.75%
Long Term Debt	19,999	7,400	7,858	4,203	2,550
Long term debt to assets ratio	29.34%	18.57%	21.83%	12.14%	8.52%
stockholder's equity ratio	31.21%	42.43%	33.63%	50.03%	51.61%
Financial leverage	3.2	2.36	2.97	2	1.94

The increasing ratio shows that the enterprise want to expand the scale of firm or they are preparing to investing some projects, so they lend money from the bank or financial institution, so, it cause liabilities increasing, that’s why debt asset ratios increasing in five years.

As we can see the data above, Pepsi’s liabilities in 2006 and 2007 were quite low. It means Pepsi do not operations on borrowing. As we know, if a company operation on borrowing, this company will more efficiency and valuable because of tax shield. But in this case we can see PepsiCo's liabilities are quite low in 2006 and 2007 which means it operated by most of its own capital though it wasn't much efficiency. And in 2008 and 2010, the ratios are 66.36% and 68.78%, nearly 20% increase changing than passed two years. This data show us Pepsi's liabilities in 2008 and 2010 were increasing. But at the same time, in 2008 and 2010, Pepsi were more profitable than 2006 and 2007. Generally, debt to assets ratio around 40% to 60% is normal degree, calculating by formula (2.4.1) and we can see in recent five years, Pepsi's debt to assets ratio are around 40% to 60%, which means Pepsi operation very well. We can figure out that PepsiCo has a strong ability to operation on borrowing which means Pepsi will get a huge amount of potential benefit in the future and has ability to repay the debt. The leader of Pepsi considerate that market prospect is a chance and development, this is one of the reason that company increased long-term debt to operate.

In the case, total equity is not so stable in recent five years, but the total equity increased in 2010 which means the more strength that it get, shareholders' can get more profit. As we can see, the shareholders equity reduced year by year. From 2006 to 2007 shareholder's equity ratio are around 50% which means the structure of capital and shareholders' governance are stable. But to a great enterprise as PepsiCo, this ratio is so high that causes cost of finance increased and can't use financial leverage efficiency. The long-term debt increasing very fast, achieve 1700 million dollars in 2007, 5300 in 2008, and especially in 2010 this number achieve nearly 18000 million dollars, compare with current liabilities, this item is unstable, this means company has pressure on short term liabilities. In the other hand, Pepsi is a famous and successful company in the world, the increasing debt shows Pepsi trying to make some notice to operate, and this kind of huge scale company has ability to repay the debt.

Here we can see financial leverage increased by each year in the table, if company borrow a huge amount of capital from banks or financial institutions means that company are using financial leverage, we can figure out PepsiCo increased loan year by year to gain more and more profit, but in the same time, Pepsi increased their business risk also when they using leverage. The reason causes financial leverage increased is PepsiCo borrow amounts of capital to operate. Financial leverage increased also means earnings before interest and tax changing more with EPS. So these might be main factor, according to formula (2.4.3).

Figure 4.4 Debt to asset and equity ratios

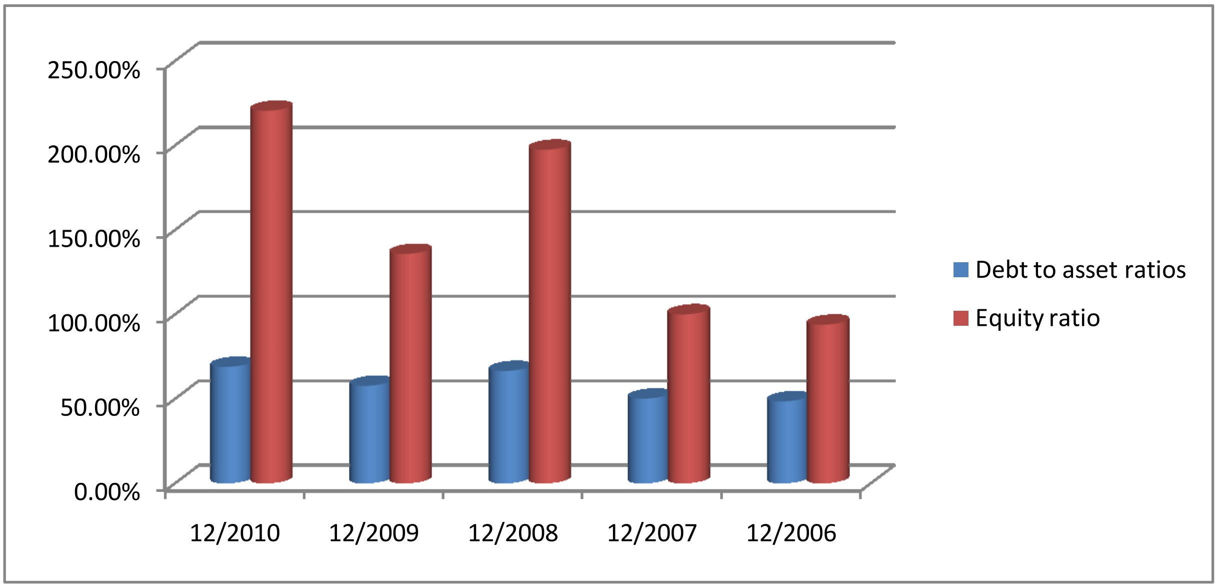
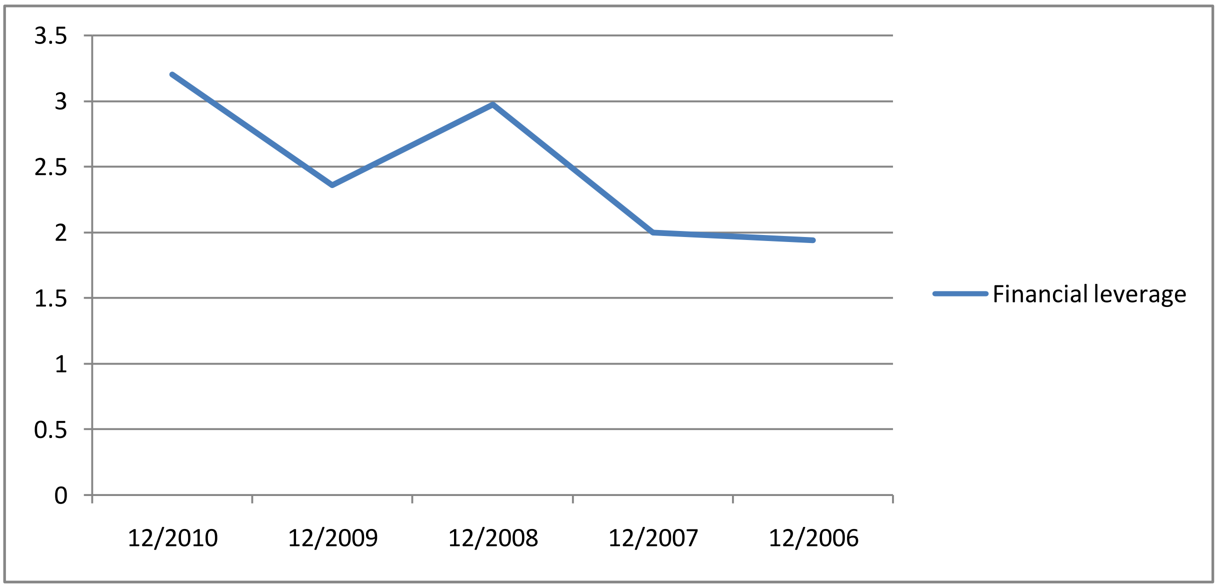


Figure 4.5 Five years financial leverage



4.4 Profitability analysis

It will describe the change and reason of profitability analysis.

Table 4.4 Profitability Ratio

					in Millions of USD
	12/2010	12/2009	12/2008	12/2007	12/2006
Operating Revenue	57,838	43,232	43,251	39,474	35,137
Total Net Income	6,320	5,946	5,142	5,658	5,642
Total Income Before Interest Expense (EBIT)	9,135	8,476	7,374	7,855	7,228
Total Assets	68,153	39,848	35,994	34,628	29,930
Operating margin	15.79%	19.61%	17.05%	19.90%	20.57%
Net Profit Margin on Sales	10.92%	13.75%	11.88%	14.33%	16.05%
Return on assets	9.27%	14.92%	14.28%	16.33%	18.85%
Total Revenue	57,838	43,232	43,251	39,474	35,137
Income Before Tax	8,232	8,079	7,045	7,631	6,989
pretax profit margin	14.23%	18.69%	16.29%	19.33%	19.89%

From 2006 to 2010, operating margin kept decreasing which means profit also decreasing as well, Pepsi is becoming less efficient. I think the reason is decreased sales price and the amount of the products. In order to get advantage between the competed with Cola, Pepsi may use lower price. Though the price was down, Pepsi still had problems with amount of sales which cause ROS decreased.

As we can see the table, from 2006 to 2010, the ROA ratio kept decreasing which means efficiency of using assets is bad and income was decreased. This phenomenon show us Pepsi was facing sale problems in recent 5 years, they got a disadvantage when competed with

Coca-Cola or others same industry companies. Total asset returns decreased and changes in capital structure cause ROA decreased in recent five years. Compared with 4 years ago, ROA decreased almost 9.0%, it is half of 2006. A low percentage return on assets indicates that the company is not making enough income from the use of its assets and inefficient use of company facilities, machinery or fleet. This is especially true if the return on assets percentage is lower than the industry average. It also indicates a problem with its strategic management. The company may be expanding too quickly. If it purchases too much land, buildings and equipment, its assets and capital expenditures rapidly increase.

EBIT has increased from 2006 to 2010, the reason for this result may be Pepsi reducing operating expense or increase gross profit. Company reducing the cost can make earning or we can say margin profit increased, if the cost is lower, we can gain more profit.

Figure 4.6 Comparison with profitable ratio

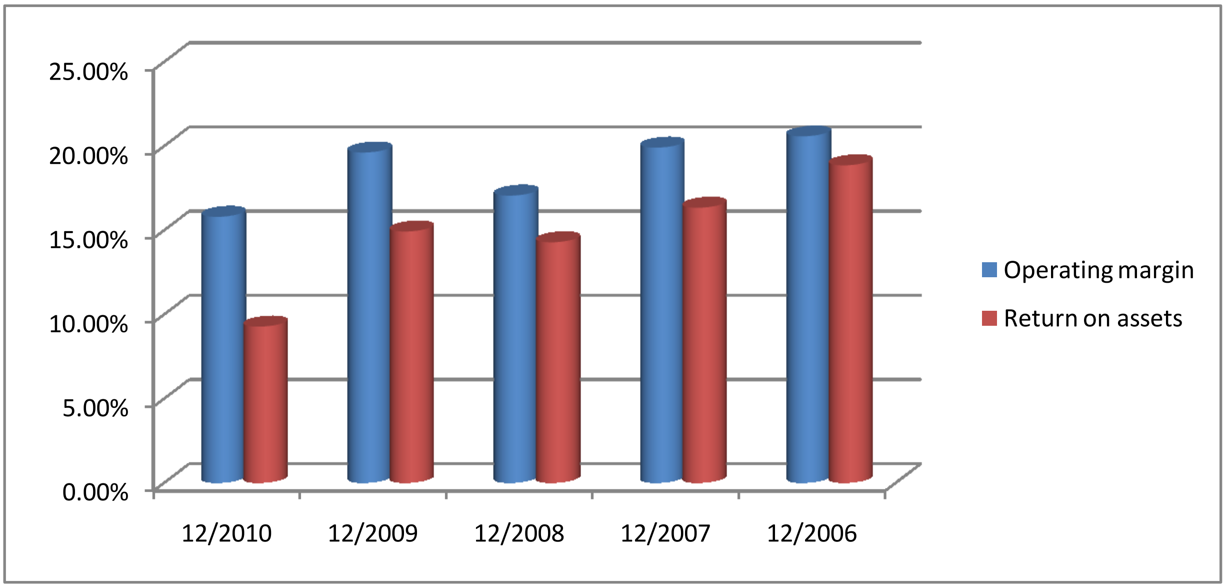


Table 4.5 Working Capital

	in Millions of USD				
	12/2010	12/2009	12/2008	12/2007	12/2006
Total Current Assets	17,569	12,571	10,806	10,151	9,130
Total Current Liabilities	15,892	8,756	8,787	7,753	6,860
Working capital	1677	3815	2019	2398	2270

Working capital can measure an enterprise's short-term solvency, the more money we have, the better for the company to pay the debt. In 2009, working capital has achieved 3815 which is higher than other year. Pepsi selling a huge amount of goods in 2009(decrease the inventories) and gain lots of cash, this activity cause asset increased in 2009 and made working capital increased as well. In 2010, cash flow of Pepsi slowed down, and did not gain enough cash reserve and invested, because of lacking cash, Pepsi was unable to satisfy the business enterprise of the normal production and business operation activities need. That's why working capital decreased.

Table 4.6 Return On Equity

	in Millions of USD				
	12/2010	12/2009	12/2008	12/2007	12/2006
Total Net Income	6,320	5,946	5,142	5,658	5,642
Total Equity	21,273	16,908	12,106	17,325	15,447
Return on equity	29.70%	35.10%	42.40%	32.60%	36%

From year 2006 to 2007, ROE rate decreased, but it increased by 10% in 2008. As we know, there is a serious economic crisis occur in America in 2008, this crisis cause a lot of company facing horrible fiscal problems, including Pepsi. Because of the economic crisis, the prospect of the market was not good, so Pepsi use the rest of profit to return to shareholder's instead of investing in others project. Investment in economic crisis is not a wise decision for a firm, this is also a chance to reward investors'. So that is why ROE increased in 2008 but decreased in the next year. After the economic crisis, company should invest more profit into investment to expand the revenue of the company rather than return the dividend to the shareholder's.

Figure 4.7 Change of ROE in recent five year

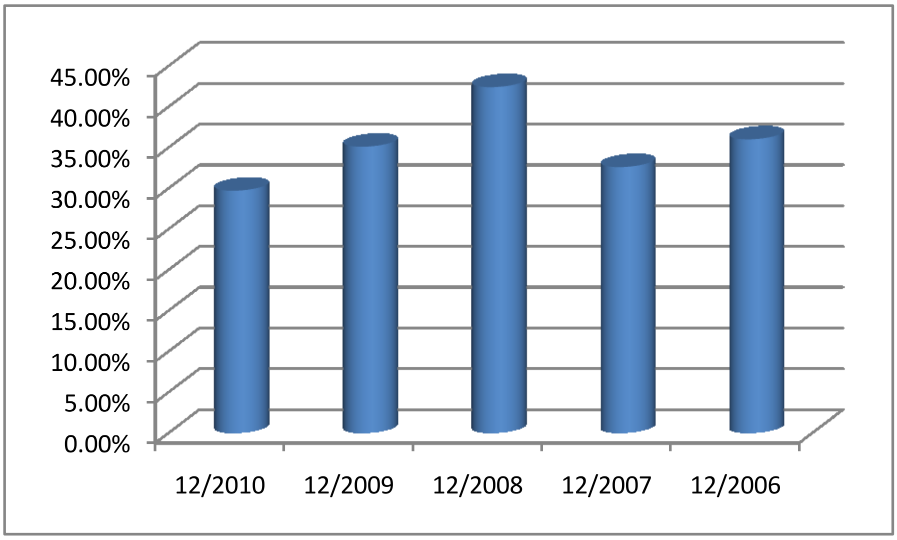


Table 4.7 Gross Margin

	in Millions of USD				
	12/2010	12/2009	12/2008	12/2007	12/2006
Gross Operating Profit	33,473	24,705	24,379	22,804	20,619
Total Revenue	57,838	43,232	43,251	39,474	35,137

The higher the percentage, the better the company is thought to control costs. On the contrary, the lower the percentage, the worst to control costs. Investors use the gross margin to compare companies in the same industry and also in different industries to decide what are the most profitable. Such as Coca-Cola.

In recent years, Pepsi's gross margin increased from 2006 to 2010. The main reasons as follow: 1.To develop the consciousness and ability of market, this could be a kind of strategy to increased gross margin. 2. Strategic requirements of Pepsi. Pepsi makes strategy and methods in order to competed with cola or others companies, so I think that would be one of the reason that gross margin keep increasing. 3. Management degree of inventories. Pepsi was using so low costs to managed their inventories that gross margin could increased all the time.

4.5 DuPont analysis

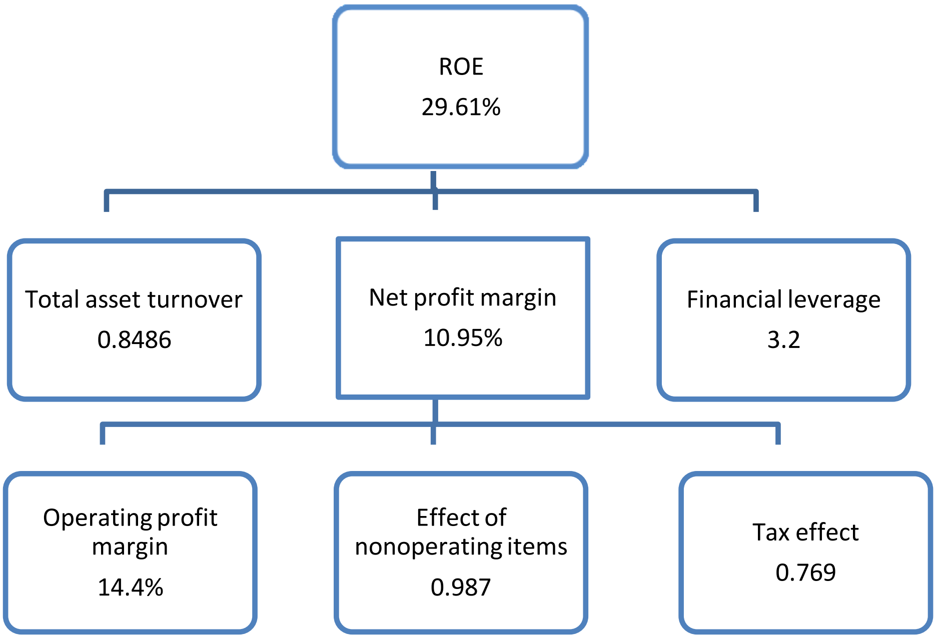
DuPont analysis is an analysis that using the relationship of several main financial ratio to analysis companies' financial statement comprehensively. DuPont analysis is used to evaluate the profitable abilities and equity shareholder's return.

Table 4.8 Data of DuPont Analysis

Income					in Millions of USD
	12/2010	12/2009	12/2008	12/2007	12/2006
Net Income	6,338	5,979	5,166	5,658	5,642
Total Assets	68,153	39,848	35,994	34,628	29,930
Total Revenue	57,838	43,232	43,251	39,474	35,137
Operating Income	8,332	8,044	6,959	7,170	6,439
Income Before Tax	8,232	8,079	7,045	7,631	6,989
Total Net Income	6,320	5,946	5,142	5,658	5,642
Total Equity	21,273	16,908	12,106	17,325	15,447

Here using DuPont methodology to analysis PepsiCo's financial statement.

(Figure 4.8 DuPont analysis in 2010)



ROE=Total asset turnover × Net profit margin × Financial leverage

$$ROE = \frac{Revenue}{Asset} \times \frac{Profit}{Revenue} \times \frac{Asset}{Equity}$$

$$0.296 = 0.848 \times 0.109 \times 3.203$$

Now we can see ROE ratio breakdown into three parts, and we can analysis the different and reason through these decompose ratio. From these decompose data we will know which factor is the main reason cause ratio changing.

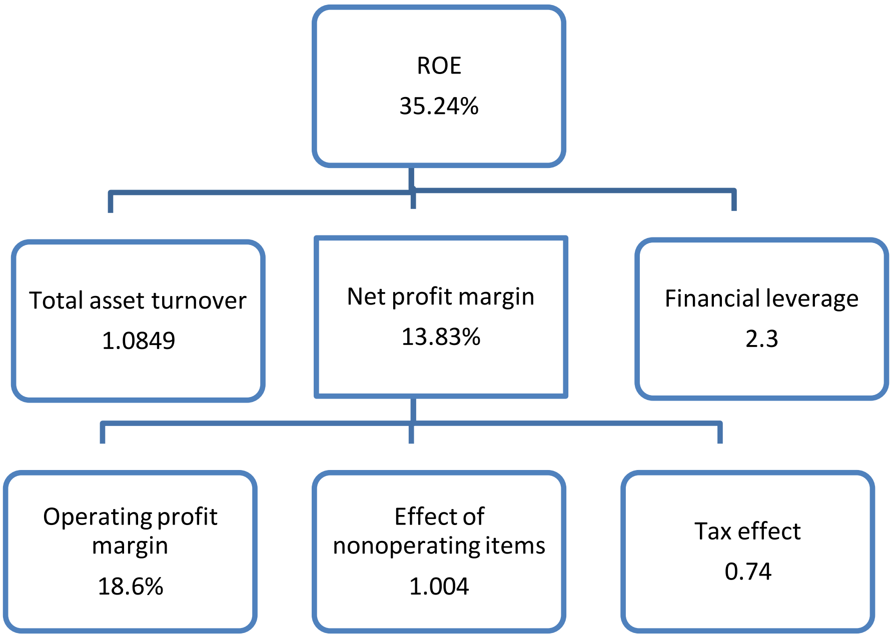
Net profit margin=Operating profit margin × Effect of nonoperating items × Tax effect

$$\text{Net profit margin} = \frac{\text{Operating income}}{\text{Revenue}} \times \frac{\text{Income before tax}}{\text{Operating income}} \times \left(1 - \frac{\text{Tax}}{\text{Income before tax}}\right)$$

$$0.109 = 0.144 \times 0.987 \times 0.769$$

We campare these decompose data to understand the different among the financial condition and performance that produce different ROE.

(Figure 4.9 DuPont analysis in 2009)



ROE=Total asset turnover × Net profit margin × Financial leverage

$$\text{ROE} = \frac{\text{Revenue}}{\text{Asset}} \times \frac{\text{Profit}}{\text{Revenue}} \times \frac{\text{Asset}}{\text{Equity}}$$

$$0.352 = 1.085 \times 0.138 \times 2.357$$

This data below is about Net profit margin in 2009.

Net profit margin=Operating profit margin × Effect of nonoperating items × Tax effect

$$\text{Net profit margin} = \frac{\text{Operating income}}{\text{Revenue}} \times \frac{\text{Income before tax}}{\text{Operating income}} \times \left(1 - \frac{\text{Tax}}{\text{Income before tax}}\right)$$

$$0.138 = 0.186 \times 1.004 \times 0.74$$

Compare with ROE in 2010, we can figure out that ROE in 2009 is larger than 2010. Why? We can see the decompose ratio of ROE, and we can find the reason there. Compare this numbers, we know that total asset turnover and Net profit margin in 2009 are bigger than it in 2010, total asset turnover in 2009 bigger than in 2010 means they convert into current asset need longer time, this is worse. these two factors cause ROE ratio change. We can also find why net profit margin in 2009 is bigger than 2010, because net profit margin is one of the factor lead to ROE change. Operating profit margin is 18.6% in 2009 and 14.4% in 2010, we can see greater operating profit margin in 2009 which means PepsiCo earn more profit when they selling each products, it also indicate Pepsi has a lower cost manage in 2009. In the same way, effect of non operating items in 2010 smaller than in 2009 as well.

5 Conclusion

Financial analysis is mainly use balance sheet and income statement to report or reflect one operation's financial statement, operate result or cash flow. It is a kind of analysis research.

Through analysis financial report, the manager of enterprise can check the profitability of company and efficiency of using capital, or evaluate the degree of financial risk, investment risk and solvency of company. It provides financial forecast and decision for report users.

Through reading chapter three, Coca-Cola, the biggest competitors with PepsiCo, is losing some part of their market when compete with PepsiCo in recent years. In order to expand market and get advantage to against Coca-Cola, PepsiCo concentrate on the youth generation. The slogan of PepsiCo is always about energy and youth people. Through this right and brilliant strategy, PepsiCo's sales beyond Coca-Cola in some area, such as Canada and Russia. This is the first time that PepsiCo defeat Coco-Cola in hundreds years, because of the right approach, PepsiCo's financial statement became better year by year. According to the analysis of common size analysis, total asset has increased 128%, equity has increased 38%, debt increased 684%, and total net income increased 12% in five years. All the trend shown that statement is in a good way.

The same, what were found in chapter four indicated that PepsiCo become healthier and stronger year by year. It concluded from activity ratio, liquidity ratio, solvency ratio and profitability ratio, what can be seen from theses ratio are positive effective in these years totally, though some big economic events happened, such as economic crisis in 2008.

Using DuPont analysis method can also find the main reason which causes a basic ratio changing, People can figure out the different, and then find the mistakes easily. Through DuPont analysis, it is obvious that ROE has decreased, from 2009 to 2010, ROE has decreased 5.63%.

In the future, PepsiCo will trend to good way and keep growing, it's trusted and worthy by customers to invest and still have space to improve. Focus on the new chance, hold it and dare to face the challenge will make it success.

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List of abbreviations

EBIT	Earning Before Interest and Taxation
ROE	Return On Equity
ROA	Return On Asset
AMP Energy	An energy drink brand produced and owned by PepsiCo
SoBe	A brand of teas, fruit-juice blends and enhanced water beverages owned by PepsiCo
IZZE	A brand name of a line of carbonated juice drinks produced by the IZZE Beverage Company, which is owned by PepsiCo.
WNBA	Women's National Basketball Association
NBA	National Basketball Association
NFL	National Football League
(FERA)	Foreign Exchange Regulation Act
(PAIC)	Punjab Agro Industrial Corporation

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List of annex

Annex

Annex 1.1 Balance sheets

Assets [+]					in Millions of Dollars
	12/2010	12/2009	12/2008	12/2007	12/2006
Cash and Equivalents	5,943	3,943	2,064	910	1,651
Restrictable Cash	-	-	-	-	-
Marketable Securities	426	192	213	1,571	1,171
Accounts Receivable	6,323	4,624	4,683	4,389	3,725
Loans Receivable	-	-	-	-	-
Other Receivables	-	-	-	-	-
Receivables	6,323	4,624	4,683	4,389	3,725
Inventories, Raw Materials	1,654	1,274	1,228	1,056	860
Inventories, Work in Progress	128	165	169	157	140
Inventories, Purchased Components	-	-	-	-	-
Inventories, Finished Goods	1,590	1,179	1,125	1,077	926
Inventories, Other	-	-	-	-	-
Inventories, Adjustments & Allowances	-	-	-	-	-
Inventories	3,372	2,618	2,522	2,290	1,926
Prepaid Expenses	1,505	1,194	1,324	991	657
Current Deferred Income Taxes	-	-	-	-	-
Other Current Assets	-	-	-	-	-
Total Current Assets	**17,569**	**12,571**	**10,806**	**10,151**	**9,130**
Land and Improvements	1,976	1,208	868	864	756
Buildings and Improvement	7,054	5,080	4,738	4,577	4,095
Machinery, Furniture and Equipment	22,091	17,183	15,173	14,471	12,768
Construction in Progress	1,920	1,441	1,773	1,984	1,439
Fixed Assets, Other	-	-	-	-	-
Fixed Assets, Total	33,041	24,912	22,552	21,896	19,058
Gross Fixed Assets	33,041	24,912	22,552	21,896	19,058
Accumulated Depreciation	-13,983	-12,241	-10,889	-10,668	-9,371
Net Fixed Assets	19,058	12,671	11,663	11,228	9,687
Intangibles	13,808	2,623	1,128	2,044	1,849
Cost in Excess	14,661	6,534	5,124	5,169	4,594
Non-Current Deferred Income Taxes	-	-	-	-	-
Other Non-Current Assets	3,057	5,449	7,273	6,036	4,670
Total Non-Current Assets	**50,584**	**27,277**	**25,188**	**24,477**	**20,800**
Total Assets	**68,153**	**39,848**	**35,994**	**34,628**	**29,930**

Annex 1.2 Balance sheets

Liabilities [+]					in Millions of Dollars
	12/2010	12/2009	12/2008	12/2007	12/2006
Accounts Payable	10,923	8,127	8,273	2,562	2,102
Short Term Debt	4,898	464	369	-	274
Notes Payable	-	-	-	-	-
Accrued Expenses	-	-	-	-	-
Accrued Liabilities	-	-	-	2,894	2,587
Deferred Revenues	-	-	-	-	-
Current Deferred Income Taxes	-	-	-	-	-
Other Current Liabilities	71	165	145	2,297	1,897
Total Current Liabilities	**15,892**	**8,756**	**8,787**	**7,753**	**6,860**
Long Term Debt	19,999	7,400	7,858	4,203	2,550
Deferred Income Tax	4,057	659	226	646	528
Other Non-Current Liabilities	6,620	5,487	6,541	4,792	4,624
Minority Interest	312	638	476	-	-
Capital Lease Obligations	-	-	-	-	-
Preferred Securities of Subsidiary Trust	-	-	-	-	-
Preferred Equity Outside Shareholders' Equity	-	-	-	-91	-79
Total Non-Current Liabilities	**30,988**	**14,184**	**15,101**	**9,550**	**7,623**
Total Liabilities	**46,880**	**22,940**	**23,888**	**17,303**	**14,483**
Preferred Shareholder's Equity	41	41	41	-	-
Common Shareholder's Equity	21,232	16,867	12,065	17,325	15,447
Common Par	31	30	30	30	30
Additional Paid in Capital	4,527	250	351	450	584
Cumulative Translation Adjustments	-	-	-	213	-506
Retained Earnings	37,090	33,805	30,638	28,184	24,837
Treasury Stock	-16,895	-13,528	-14,260	-10,387	-7,758
Other Equity Adjustments	-3,521	-3,690	-4,694	-1,165	-1,740
Total Capitalization	41,272	24,308	19,964	21,528	17,997
Total Equity	**21,273**	**16,908**	**12,106**	**17,325**	**15,447**
Total Liabilities & Shareholder's Equity	**68,153**	**39,848**	**35,994**	**34,628**	**29,930**

Annex 1.3 Income statements

Income [+]					in Millions of Dollars
	12/2010	12/2009	12/2008	12/2007	12/2006
Operating Revenue	57,838	43,232	43,251	39,474	35,137
Total Revenue	57,838	43,232	43,251	39,474	35,137
Adjustments to Revenue	-	-	-	-	-
Cost of Revenue	-24,365	-18,527	-18,872	-16,670	-14,518
Cost of Sales With Depreciation	26,575	20,099	20,351	18,038	15,762
Gross Margin	33,473	24,705	24,379	22,804	20,619
Gross Operating Profit	33,473	24,705	24,379	22,804	20,619
Selling/General/Admin Expense	-22,814	-15,026	-15,877	-14,208	-12,774
Research & Development	-	-	-	-	-
Advertising	-	-	-	-	-
EBITDA (Operating Income Before Depreciation)	10,659	9,679	8,502	8,596	7,845
Depreciation & Amortization	-2,327	-1,635	-1,543	-1,426	-1,406
Depreciation, Unreconciled	-	-	-	-	-
Amortization	-	-	-	-	-
Amortization of Intangibles	117	63	64	58	162
Operating Income	8,332	8,044	6,959	7,170	6,439
Operating Profit After Depreciation	8,332	8,044	6,959	7,170	6,439
Interest Income	68	67	41	125	173
Earnings from Equity Interest	735	365	374	560	616
Other Income, Net	-	-	-	-	-
Income, Acquired in Process R&D	-	-	-	-	-
Income, Restructuring and M&A	-	-	-	-	-
Other Special Charges	-	-	-	-	-
Total Income Before Interest Expense (EBIT)	9,135	8,476	7,374	7,855	7,228
Interest Expense	-903	-397	-329	-224	-239
Income Before Tax	8,232	8,079	7,045	7,631	6,989
Income Taxes	-1,894	-2,100	-1,879	-1,973	-1,347
Minority Interest	-18	-33	-24	-	-
Preferred Securities of Subsidiary Trust	-	-	-	-	-
Other Special Charges	8,232	8,079	7,045	7,631	6,989
Net Income from Continuing Operations	6,320	5,946	5,142	5,658	5,642
Net Income from Discontinued Operations	-	-	-	-	-
Net Income from Total Operations	6,320	5,946	5,142	5,658	5,642
Normalized Income	6,320	5,946	5,142	5,658	5,642
Extraordinary Income/Loss	-	-	-	-	-
Special Income/Charges	-	-	-	-	-
Income from Cum. Effect of Acct Change	-	-	-	-	-
Income from Tax Loss Carryforward	-	-	-	-	-
Net Income Available for Common	6,320	5,946	5,142	5,646	5,631
Other Gains	-	-	-	-	-
Total Net Income	**6,320**	**5,946**	**5,142**	**5,658**	**5,642**
Net Income Available for Common	6,320	5,946	5,142	5,646	5,631

Annex 1.4 Income statements

Results [+]					in Dollars (Preferred Dividends in Millions)
	12/2010	12/2009	12/2008	12/2007	12/2006
Dividends Paid Per Share	1.89	1.78	1.65	1.35	1.12
Preferred Dividends	-	-	-	12	11
Basic EPS from Continuing Operations	3.97	3.81	3.26	3.48	3.42
Basic EPS from Discontinued Operations	0	0	0	0	0
Basic EPS from Extraordinary Income Gains/Losses	0	0	0	0	0
Basic EPS from Cumulative Effect of Accounting Change	0	0	0	0	0
Basic EPS from Tax Loss Carryforward	0	0	0	0	0
Basic EPS from Other Gains/Losses	0	0	0	0	0
Basic EPS from Total Net Income	3.97	3.81	3.26	3.48	3.42
Basic Normalized Net Income per Share	3.97	3.81	3.26	3.48	3.42
Basic EPS from Total Operations	**3.97**	**3.81**	**3.26**	**3.48**	**3.42**
Diluted EPS from Continuing Operations	3.91	3.77	3.21	3.41	3.34
Diluted EPS from Discontinued Operations	0	0	0	0	0
Diluted EPS from Extraordinary Gains/Losses	0	0	0	0	0
Diluted EPS from Cumulative Effect of Accounting Change	0	0	0	0	0

Annex 1.5 Cash flow

Cash Flow					in Millions of Dollars
	12/2010	12/2009	12/2008	12/2007	12/2006
Net Income	6,338	5,979	5,166	5,658	5,642
Depreciation	2,327	1,635	1,543	1,426	1,406
Amortization	-	-	-	-	-
Amortization of Intagibles	-	-	-	-	-
Deferred Income Taxes	500	284	573	118	-510
Operating Gains/Losses	-2,493	-1,356	-142	-323	134
Extraordinary Gains/Losses	-	-	-	-	-
Decrease in Receivables	-268	188	-549	-405	-330
Decrease in Inventories	276	17	-345	-204	-186
Decrease in Prepaid Expenses	144	-127	-68	-16	-37
Decrease in Other Current Assets	-	-	-	-	-
Increase in Payables	488	-133	718	500	223
Increase in Other Current Liabilities	123	319	-180	128	-295
Decrease in Other Working Capital	-132	-281	-391	-	-
Other Non-Cash Items	1,145	271	674	52	37
Net Cash from Continuing Operations	8,448	6,796	6,999	6,934	6,084
Net Cash from Discontinued Operations	-	-	-	-	-
Cash from Operating Activities	**8,448**	**6,796**	**6,999**	**6,934**	**6,084**
Sale of Property, Plant, Equipment	81	58	98	47	49
Sale of Long Term Investments	-	-	358	315	318
Sale of Short Term Investments	29	71	62	140	2,046
Purchase of Property, Plant, Equipment	-3,253	-2,128	-2,446	-2,430	-2,068
Acquisitions	-3,804	-386	-40	-1,320	-485
Purchase of Long Term Investments	-463	-	-1,925	-	-
Purchase of Short Term Investments	-12	-29	-156	-496	-29
Other Investment Changes, Net	-246	13	1,382	-	-25
Cash from Investing Activities	-7,668	-2,401	-2,667	-3,744	-194
Cash from Discontinued Investing Activities	-	-	-	-	-
Issuance of Debt	9,029	120	3,808	2,251	236
Issuance of Capital Stock	1,038	413	620	1,108	1,194
Repayment of Debt	-155	-307	-918	-1,057	-2,683
Repurchase of Capital Stock	-4,983	-7	-4,726	-4,312	-3,010
Payment of Cash Dividends	-2,978	-2,732	-2,541	-2,204	-1,854
Other Financing Charges, Net	-565	16	732	208	134
Cash from Financing Activities	**1,386**	-2,497	-3,025	-4,006	-5,983
Cash from Discontinued Financing Activities	-	-	-	-	-
Effect of Exchange Rate Changes	-166	-19	-153	75	28
Net Change in Cash	**2,000**	**1,879**	**1,154**	-741	-65
Diluted EPS from Total Operations	**3.91**	**3.77**	**3.21**	**3.41**	**3.34**